

UCLA

UCLA Previously Published Works

Title

RESALE PRICE MAINTENANCE - AN INQUIRY INTO ITS EFFECT ON THE SMALL RETAILER

Permalink

<https://escholarship.org/uc/item/34x4m6m9>

Author

Cooper, Joel

Publication Date

2023-12-14

Copyright Information

This work is made available under the terms of a Creative Commons Attribution-NonCommercial License, available at <https://creativecommons.org/licenses/by-nc/4.0/>

Peer reviewed

RESALE PRICE MAINTENANCE - AN INQUIRY INTO ITS
EFFECT ON THE SMALL RETAILER

Joel Cooper

Although the hue and cry raised for and against resale price maintenance or fair trade laws has subsided greatly in recent years, it is interesting to examine some of the neglected aspects of the issue, which did not overtly become part of the controversy when it was raging. Dismissing the legal ramifications, the arguments which have been advanced can be summarized as follows:

a. Pro

1. Fair trade laws tend to inhibit predatory competition and sharp practices.
2. Fair trade laws prevent the small retailer from being driven out, and eventually protect the consumer from monopolistic prices that would result when the small retailer is driven out of the competition.
3. Fair trade laws protect the "good will" which the manufacturer has built or advertised into his product.

b. Con

1. Fair trade laws obligate the retailer to support a price structure for goods which he has already purchased.
2. Fair trade laws force the consumer to pay a higher price for products.
3. Fair trade laws prevent the market from operating in free competition.
4. Fair trade laws tend to restrict efficient economic units.

Early in the course of the fair trade controversy, Weigel (1938) and Grether (1936) felt that fair trade laws had little effect on the

small retailer. In this paper it will be shown that if the fair trade concept is carried to the ultimate point, that complete fair trade will not help the small retailer and may actually be a detriment to his economic interests.

Let us begin with the following assumptions:

- a. There are fair trade laws which extend to all products.
- b. These laws are completely enforced and effective.
- c. There are no ways of circumventing the laws, i.e., premium offers, giveaways, trading stamps, contests, etc. are illegal.

Under these conditions, the consumer will know that he cannot shop price. No matter where he goes, the price will not be lower for the same brand. The consumer will then purchase from the store which satisfies for him the buying motives other than price.

The volume dealer, who depended formerly on price cutting to maintain his volume, will be forced to look for motivations other than price to maintain his demand. Since he will now not be cutting price, he is guaranteed a "full profit" on each sale. He can therefore devote a larger amount of money to advertising, service, and other non-price competitive inducements. Also, if he is large enough, he can go into private brand merchandise; and even assuming that he would have to maintain price on his private brand merchandise, he could still set the fixed price lower than nationally advertised brands. Since the price conscious consumer knows that he cannot "beat" the price on the national brands, he is more likely to turn to private brands for his purchasing, thus precluding sales by the small retailer to this type of consumer. Fundamentally though, it is this type of consumer who the small retailer is now losing to the price-cutting retailer in the absence of fair trade laws.

For the consumer who is not strongly price motivated, his purchase drive will come from factors such as breadth of selection, convenience, service, and other utility factors. Since this consumer is willing to pay the price for a brand name, he is conscious of the reliability of stores. The ability of the large store to advertise more frequently will tend to fix the name more solidly in the consumer's mind. Further, the consumer will tend to believe that the size of the enterprise will lead to a greater ability to "back" the product sold.

Since capital tends to be more easily accessible to the large retailer, his credit terms can be more liberal. He can forego large down payments. He can undoubtedly offer customers a broader selection of goods. Since his purchases from any particular supplier are likely to be much larger than the purchases of a small retailer, he can expect better delivery and more cooperation from a supplier on goods which fail. His delivery advantage, along with a greater access to advanced market information, will assure early stocks of items of heavy demand. His returned-goods advantage will mean that he can accept unsatisfactory goods from his customer more readily and thus maintain customer good will. Because of his breadth of selection, he is likely to experience more one-stop shopping, thus gaining a larger volume per store customer. He can afford consultants in many areas; he can afford the services of specialist who can suggest ideas to increase sales; he can afford experienced salesmen, thus increasing the scope of personal selling; and he can also afford buying specialists for many product lines,

thus offering a more attractive product selection. If he chooses, he can slant his advertising to various psychologically preferred images-- exclusiveness, smartness, "where the Jones' shop"; and by repetitive advertising, he can build the type of image that he wishes. In summary, if the large retailer cannot turn to price to attract his customer, he will be forced to exploit or extend his comparative advantage in different ways. Indeed, we assume he may be better equipped than the small retailer to attract the customer.

There are, however, two presumptions in the previous discussion: That there is a sufficient number of shoppers who are not necessarily strongly price conscious and that stores recognize this difference and individually choose a market to which to cater. This paper tests these two presumptions. If these can be substantiated, the foregoing analysis would lead us to a logical belief that fair trade laws may indeed be inimical to the economic welfare of the small retailer.

It would seem logical that if a store were trying to create a low price image, it would feature price extensively in its advertising. It would also seem logical that if a consumer's purchase habits were generally determined by price, he would prefer to (and in most cases actually would) shop where he felt he got the "best price" for given merchandise. Further, it would seem logical that if there were significant differences in the extent to which price is featured in advertising between stores, that the stores would be attempting to appeal to different aspects of consumer purchasing behavior.

Ideally we should examine the advertising for small retailers who do not cut price, and compare this with the advertising of large retailers who do. Unfortunately, while it is possible to gather a sufficiently large sample on the latter, it is impossible on the former. Additionally, it was felt that comparisons could best be made if the stores selected for the advertising base could also be used to test the consumer purchase patterns. This seemed possible only if the stores selected were sufficiently well known to provide reasonable assurance that any subject selected would be likely to know all stores under consideration.

In one sense, the fact that advertising and consumer information on small retailers cannot be gathered seems self defeating for the purposes of this examination. On the other hand, it was felt that the advertising and operating philosophy of those retailers, regardless of size, who did not feature price would be the same as the small retailer not involved in price cutting.

HYPOTHESES

To test these notions, the following hypotheses were set:

- a. There is no significant difference between the ratio of space used for advertising price to total advertising space in retail stores.
- b. Consumers will show a significant preference for patronizing stores where they believe they will get the best price for equivalent merchandise.

TEST METHOD FOR FIRST HYPOTHESIS

To test the first hypothesis, the following approach was adopted. Seven retail stores were selected to be used in a survey. The stores

were chosen to represent a cross section that would include a range from known low quality stores to stores known for reasonably high quality. The stores which were chosen were those likely to advertise consistently. The assumption of consistent advertising held in six out of seven cases.

Advertising volume for nine weeks of the Los Angeles Times, Sunday edition, from November 6, 1966, through January 15, 1967, was examined. Two of the Sundays, December 25 and January 1, fell on holidays which severely constrained the advertising for these two weeks which were disregarded since it was felt that the advertising would be atypical. As a consequence, the nine editions studied covered an elapsed time period of 11 weeks.

The actual method of determining the sales price-space ratio was to measure the envelope of space occupied by each price on a page of advertising and then measure the total purchased space of the advertisement. The envelope measured consisted of the price only, not the associated commodity. The proportion of price-space to total space was then calculated as a percentage. The sales price was multiplied by a factor of ten for ease of calculation.

Since there was an extremely heavy amount of advertising for the Christmas and after-Christmas season, it was decided to reduce the amount of measurement by sampling. The sample for each store per week was determined as follows. Since the selected stores tended to group their ads, the numbers of pages of advertising for a particular store was counted. All ads of six or less pages were taken entirely. If there were over six pages, a number was drawn at random

from a group which were numbered from six to fifteen. The number drawn determined the number of pages which would be measured. This number of slips was drawn from a second group of numbers corresponding to the total number of pages of advertising used that week for the particular store. The numbers drawn determined the number of pages which would be measured. This number of slips was drawn from a second group of numbers corresponding to the total number of pages of advertising used that week for the particular store. The numbers drawn determined which consecutively numbered pages would be used. A total of 1,945 sales prices in 215 pages of advertising were examined. The seven stores chosen were:

- a. Barker Brothers
- b. May Company
- c. White Front
- d. Broadway
- e. J. Robinson
- f. J. Magnin
- g. Unimart

The stores are all well known, ranging from discount houses, (Unimart, White Front) to stores known for high quality and fashion (J. Magnin, J. Robinson). Additionally, it was felt that all stores selected were within the buying range of the average consumer.

FINDINGS

The summary of the space proportions are shown in Table I. As indicated in this table, the proportion of space devoted to dollar

TABLE I SPACE PROPORTIONS (X)

Week	Barker	May Co.	White Front	Broadway	Robinson	J. Magnin	Unimart
1	10.66	5.81	34.57	6.28	1.31	0.22	
2	6.48	1.46	47.23	3.15	2.11	0.00	
3	10.86	4.04	88.54	5.02	2.19	0.95	48.11
4	8.95	5.43	63.31	6.55	1.94	0.63	53.20
5	12.99	4.50	57.93	3.43	1.95	0.70	
6	7.93	2.14	75.48	2.33	1.92	1.63	
7	4.03	3.63	84.36	3.04	2.34	0.56	65.98
8	10.00	7.59	49.31	7.02	2.78	0.59	
9	5.87	6.26	70.79	3.99	2.47	0.00	49.99
ΣX	77.77	40.86	571.52	40.81	19.01	5.28	217.28
n	9	9	9	9	9	9	4
\bar{X}	8.64	4.54	63.50	4.53	2.11	0.59	54.32
DEVIATIONS $x = (X - M_s)$							
1	2.02	1.27	28.93	1.75	0.80	0.37	
2	2.16	3.08	16.27	1.38	0.00	0.59	
3	2.22	0.50	25.04	0.49	0.08	0.36	6.21
4	0.31	0.89	00.19	2.02	0.17	0.04	1.12
5	4.35	0.04	5.57	1.10	0.16	0.11	
6	0.71	2.40	11.98	2.20	0.19	1.04	
7	4.61	0.91	20.86	1.49	0.23	0.03	11.66
8	1.36	3.05	14.19	2.49	0.67	0.00	
9	2.77	1.72	7.29	0.54	0.36	0.59	4.33
Σx_s^2	63.97	25.29	2590.40	24.05	1.37	2.06	194.52

prices ranged from a low mean of .059 percent (J. Magnin), to a high mean of 6.35 percent (White Front). All factors were multiplied by 10 for ease of calculation. Nine analyses of variance were calculated for various combinations of these stores. These analyses are summarized in Table II. In two cases, pairs of stores were found to be not significantly different at the $\alpha=.01$ level. In another case, one pair of stores was found to be not significantly different at the $\alpha=.01$ level, but was found to be significantly different at the $\alpha=.05$ level.

TEST METHOD FOR THE SECOND HYPOTHESIS

To test the second hypothesis, a survey was conducted using twelve women chosen at random as average shoppers. Four of the subjects were married, non-working housewives with a family income ranging from \$12,000 to \$20,000 per annum. The other eight were working to support themselves, holding income positions ranging from \$6,000 to \$8,000 per annum. The subjects were acquainted with the stores used in the survey, although in a few instances there were one or two of the stores in which they had not shopped. However, all cooperated in ranking the stores according to their best judgement.

Each subject was asked to rank the seven stores on each of four variables sequentially. To minimize carry-over from one variable to the next, the following ranking method was used. A seven-by-seven matrix of circles was set in front of the participant and she was asked to place chips, each with one of the store names, as she ranked them on

TABLE II ANALYSIS OF VARIANCE SUMMARY

Analysis Number	Barker	May Co.	White Front	Broadway	Robinsons	J. Magnin	Uni-mart	F-Ratio	Significant	Level
1	X	X	X	X	X	X	X	107.62	Different	.05
2	X	X	X	X	X	X		95.14	Different	.05
3		X		X				.0003	Not Different	.01
4			X				X	1.34	Not Different	.01
5	X	X		X	X	X		31.38	Different	.05
6	X	X		X	X			18.45	Different	.05
7	X	X		X				10.64	Different	.05
8		X		X	X			8.36	Different	.05
9					X	X		38.60	Different	.05
10	X				X			5.45	Between	.01 & .05

- a. Quality
- b. Value (where she felt she could get the best buy for her money)
- c. Preference (where she would prefer to shop if there were no restrictions of convenience, finances, etc.)
- d. Actual (where she actually did shop)

"Value" was chosen over "price" because of the vast range of item prices which could be considered. Where subjects ranked two or more stores equally on one variable, ties were allowed. Instructions were read to the subjects so that each would receive identical instructions.

FINDINGS

The data was analyzed to determine the concordance between subjects on each of the four variables. The Kendall coefficient of concordance, W , was used since it allowed an estimate on ranked data of concordance between N variables by k judges. On three of the variables, quality, preference, and actual, the W 's obtained were found to be significant at the .01 level while on the fourth variable the W was not significant at the tabled .05 level of significance. It must be understood that the measure of significance of W is used in a different sense than is normally understood by hypothesis rejection. Since W measures the degree of association, the null hypothesis, H_0 , is that there is no agreement between judges. If the null hypothesis is rejected, then there is a significant agreement between judges at the level chosen.

The agreement between subjects is summarized in Table III.

TABLE III AGREEMENT BETWEEN SUBJECTS

VARIABLE	S	W	SIGNIFICANCE
Quality	3,333.0	0.855	At 0.01 level
Value	473.0	0.122	Not significant
Preference	1,924.5	0.489	At 0.01 level
Actual	1,711.0	0.465	At 0.01 level

$$\text{In this statistic } W = \frac{S}{1/12k^2 (N^3 - N)}$$

Where

S = sum of squares of the observed deviations from the mean of R_j ; that is, $S = \sum (R_j - \frac{R_j}{N})^2$

k = number of sets of rankings; e.g., the number of judges.

N = number of entities (objects or individuals ranked)

$1/12k^2 (N^3 - N)$ + maximum possible sum of the squared deviations; i.e., the sum \underline{S} which would occur with perfect agreement among \underline{k} rankings.

If we look at perfect agreement --i.e., $W = 1$ --then

$$1 = \frac{S}{1/12k^2 (N^3 - N)}$$

and
$$S = 1/12k^2 (N^3 - N)$$

For $k = 12$, and $N = 7$; then $S = 12 (243 - 7) = 4032$. The ratio of S to 4032 then determines the degree of agreement between the subjects. Under this statistic the range is from 0 to 1, never negative.

If we refer to the summary in Table III we can see that subjects significantly tended to agree on the way in which these store ranked on quality. Subjects also significantly tended to agree, albeit not as strongly, on where they preferred to shop as well as where they actually did shop. However, there was not significant agreement between subjects on the way these stores ranked on value.

If we consider that value, as the subjects were instructed to consider it, is basically best price for equivalent merchandise then we would tend to believe that price is not as important a variable in influencing buying behavior as commonly believed. This does not say in itself that shoppers do not care about price, but that they really may not be aware of what and where true price differentials are.

There is, however, indication that shoppers, at least as represented by this sample, do not truly care to a great extent about price. When agreement between variables is analyzed and translated into Spearman average we find the following:

<u>VARIABLE PAIRS</u>	<u>AVERAGE</u>
a. Value-Preference	$\rho = .142$
b. Quality-Preference	$\rho = .694$
c. Value-Actual	$\rho = .293$
d. Quality-Actual	$\rho = .242$

Of the four pairs, only one, quality-preference, is significantly correlated at the .05 level. Shoppers indicated that they preferred to shop for quality, and that value had little to do with where they would prefer to shop. On the other hand, their actual shopping behavior was not, according to them, closely associated with value or quality.

AGREEMENT BETWEEN NEWSPAPER AND CONSUMER SURVEY

As a final analysis, the ranking of seven stores on their price to advertising space ratio was compared to the ranks accorded by the subjects on each of the four variables. The stores were ranked from lowest to highest price-space ratio as shown in Table IV.

TABLE IV PRICE TO ADVERTISING SPACE RATIO

STORE	X	RANK
J. Magnin	.59	1
J. Robinson	2.11	2
Broadway	4.53	3
May Company	4.54	4
Barker Brothers	8.64	5
Unimart	54.32	6
White Front	63.50	7

When the advertising space ratio ranks in Table IV were correlated with the subjects' mean ranking on each of the four variables, the following Spearmans Rhos were obtained:

	Quality	Value	Preference	Actual
Space	$\rho = .85^*$	$\rho = .04$	$\rho = .79^*$	$\rho = .36$
*Significant at .05 level				

Whatever the intervening variable might be to account for the correlation, it still remains that shoppers sampled significantly felt that they would prefer to shop at the stores which had the lowest price to advertising space ratios, and believed that these stores carried better quality merchandise. The value rank correlation was so close to zero so as to be considered random. Little can be said about their actual shopping behavior except that they seemed to indicate that they were more likely to shop in stores which featured quality rather than value.

Since ties were allowed in the consumer ranking the agreement between store differences and consumer-perceived differences were examined. The store pairs which were found to be not significantly different (Table II) on price to advertising space ratio were compared with subject tie rankings as shown in Table V.

TABLE V

PRICE TO ADVERTISING SPACE COMPARED TO SUBJECT TIE RANKINGS

STORE	PRICE SPACE F RATIO	SUBJECT TIES	%
May Co.-Broadway	.0003	17	28
White Front-Unimart	1.34	13	21
Robinson-Barker	5.45	<u>17</u>	<u>28</u>
	Total	47	77
	Other	<u>14</u>	<u>23</u>
		61	100

The above findings were incidental and seem at first glance to indicate that the stores whose price to space ratio is fairly close are perceived to have something in common on the variables examined.

CONCLUSIONS

There is a strong tendency on the part of the subjects to rank stores which have the lowest price to space advertising ratio as highest in quality of merchandise handled and in shopping preference. In both cases, correlations were significant at the .05 level.

The correlation between ranking on value and price to space advertising ratio, $\rho = .04$ would indicate that there is practically no correlation between these two variables.

The original hypothesis proposed that the consumer is strongly influenced by many variables in addition to price seems to follow. The very worst that can be said is that the hypothesis cannot be rejected. The fact that consumer's actual purchasing behavior is correlated about the same on their value and quality perception would lead one to believe that they are as likely to purchase based on quality as on value. The consumer's preferred shopping for quality over value should indicate that as and if they attain a position where they can actually shop quality rather than value, they will do so strongly.

The limited correlations obtained in many cases would indicate a combination of other operating factors --namely:

- a. The individual differences between subjects
- b. The factors other than quality and value which influence shopping behavior.

It must be remembered, however, that the subject sample group did not represent a broad cross section, and any results are thus limited. The study was not conducted on small retailers for two reasons: The inability to find a group of small retailers who advertise consistently; and the problem of picking a random sample of consumers all of whom know the particular small retailers selected. However, it is felt that this does not diminish the usefulness of the results; for the initial premise was that the consumer does not buy on price alone, and that the small retailer can emphasize the non-price factors and therefore not be hurt by price. It was also assumed that he would be hurt if the price differential was eliminated and he had to compete on the non-price factors alone. With the importance of the non-price factors as has been initially demonstrated here, it would follow that the initial premises were reasonably demonstrated. It remains for further study to delineate the non-price factors and estimate their relative influence on purchase behavior.

BIBLIOGRAPHY

Grether, E.T., "Experience With Fair Trade Legislation Restricting Price Cutting", 24 California Law Review 640, September 1936

Weigel, S.A., The Fair Trade Acts, (Chicago; The Foundation Press, 1938)

CLAREMONT GRADUATE SCHOOL
AND UNIVERSITY CENTER

CLAREMONT, CALIFORNIA

June 7, 1966.

Memorandum

To: Joel Cooper

From: Professor Palda

That was a very fine term paper. How about a
dissertation out of it?

Will be back in six weeks.